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ABSTRACT

This paper is an informal assessment of Alaska state spending during the lucrative "oil years" of the early 1980s. The huge Prudhoe Bay oil field began producing in 1977 and reached a daily output of about 1.5 million barrels in 1980. From 1980 to 1986, the field helped Alaska's government to have, in relation to its population, a revenue income that vastly exceeded that of any other state. During those years, the state spent more than $26 billion, most of it from oil revenues. A previous study found that several programs received disproportionately more state money than others. Prominent among these were the following: municipalities receiving grants for operating expenses, capital improvements, and school construction; public corporations; and state-subsidized loan funds, such as the state student-loan program. The following are significant successes of the state's financial management during the early 1980s: (1) establishment of the Permanent Fund, a public financial trust established to save part of Alaska's oil revenues; (2) evidence of concern for distributional equity, benefitting all geographical, ethnic, and socioeconomic groups; (3) support for public education, with educational expenditures exceeding one-third of the state's operating budgets; and (4) a lack of major corruption. The failures of fiscal management, however, include excessive spending, state budgeting performed in secret, and an indifference to accountability. The document includes a table showing state expenditures for education and other programs from 1981 to 1986. It concludes with a call to reform the budget process. (TES)

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The Years of Big Spending in Alaska: How Good is the Record?

Gordon S. Harrison

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Editor's Note: This paper was prepared for a session on the state's finances at the 1987 Alaska Science Conference. The author has updated his work for this publication, but it remains what it was designed to be: an informal initiative into the policy issues of state spending, rather than a detailed analysis of state budgets during the first half of the 1980s. Gordon Harrison worked in state government during much of that period and observed government operations first-hand. His views are of course his own, and do not necessarily represent those of ISER.

Nobody was ever meant
to remember or invent
what he did with every cent.
Robert Frost

THE YEARS OF BIG SPENDING IN ALASKA: HOW GOOD IS THE RECORD?

At the 1970 Alaska Science Conference, held in the euphoric aftermath of Prudhoe Bay's discovery, an eminent British scientist noted that oil would make Alaska rich. But, he questioned, "Is Alaska going to know how to be rich? I hope so. It is a considerable discipline, learning how to be rich."[1] As events unfolded, Alaska became far richer than anyone imagined at the time, and the responsibility for sensible management of public money increased accordingly. From fiscal years 1981 to 1986, the state government had, in relation to the population, income that vastly exceeded that of any other state government at any time in history. The question is: how well did Alaska learn to be rich?

The extraordinary period of fiscal years 1981 to 1986 (roughly, calendar years 1980 through 1986) is too close at hand for us to begin making grand historical judgments. But it is not too soon to begin asking ourselves how well we managed our money. What amount of wisdom and prudence did we bring to the task? In a sense, Alaskans won the lottery, and who can resist the tug of curiosity about what the winner did with his money?

My main objective here today is not to seek comprehensive, definitive conclusions about our recent spending choices and spending processes, but rather to call attention to these matters. On the subject of our recent fiscal past, Alaskans seem reticent, as though we suffer from a kind of morning-after angst, not sure whether to be contrite or not. An open, public dialogue is necessary to help sharpen our collective thinking about the management of state finances. The financial dimension of our public affairs will continue to be critically important, especially with oil revenues now fluctuating unpredictably and facing an overall downward trend as Prudhoe Bay production decreases.

Alaska's Spending, FY1981-1986

The source of Alaska's extraordinary wealth between fiscal years 1981 and 1986 (roughly, calendar years 1980 to 1986) was the huge Prudhoe Bay oil field, which the state government owns. Prudhoe Bay began producing in 1977 and reached a daily output of around 1.5 million barrels in 1980. It will continue producing at peak capacity until the early 1990s. The remarkable state income from royalties and oil taxes in the first half of the decade was the result of very high oil prices during the period.

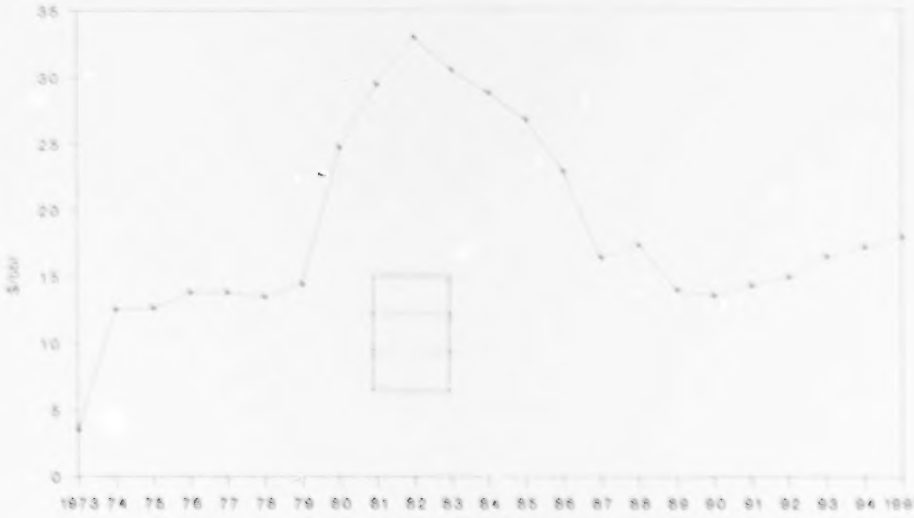
The price of crude oil soared in 1980 and 1981. An ascending price spiral had begun with the Arab oil embargo in 1973, and it went skyward with the panic in world markets created by the 1979 Iranian revolution. Decontrol of domestic prices by presidents Carter and Reagan in the late 1970s and early 1980s, and the beginning of the Iraq-Iran war in 1981, further inflated prices.

Oil sold for $3 a barrel when the Prudhoe Bay field was discovered on Alaska's North Slope in 1968. By 1981 it sold for $34 a barrel. Prices began a gradual but steady retreat as early as 1982, but collapsed dramatically to less than $10 a barrel in the spring of 1986. Prices have wavered up and down since then, but forecasters do not think prices in the near future will come even close to the levels of the early 1980s. It is now apparent that very high oil prices, and the state revenues that resulted from them, were historical anomalies. (See Figure 1.)

The state spent over $26 billion, mostly oil revenues, between FY 1981 and 1986.[2] In FY 1981 the state spent over three times what it had spent the previous year ($4.61 billion vs. $1.37 billion). The peak year was FY 1985, when spending exceeded $5 billion – almost $8,000 per resident of the state. (See Figure 2.) Spending in FY 1987 and 1988 was less than in the first half of the decade, since the state's oil revenues dropped with the fall in oil prices.[3]

An analysis of the activities, programs, and state-sponsored projects supported by state spending during the period of high revenues was done by the Institute of Social and Economic Research (ISER) in a publication titled, "Where Have All the

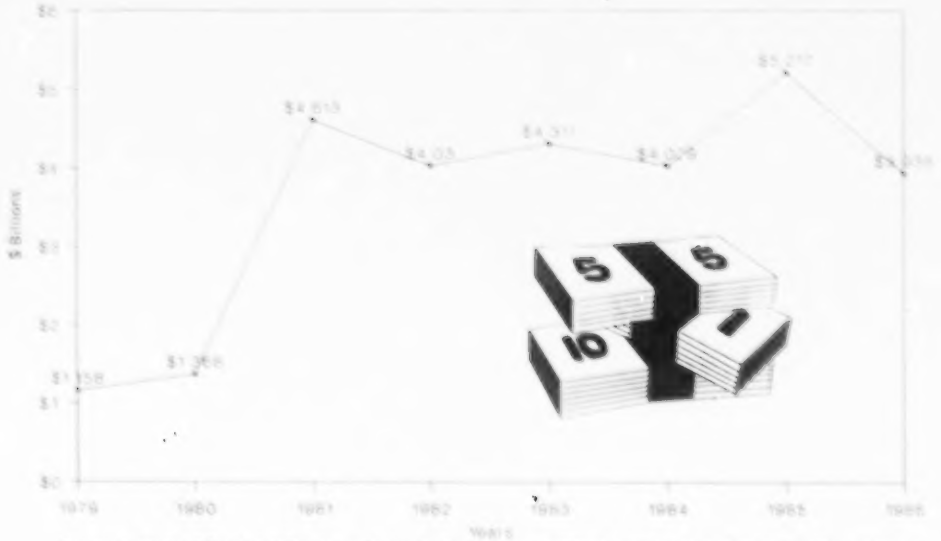
Figure 1
Imported Price of Crude Oil*



*Maximum price during each 12 month period. Prices after 1988 are the mid range projections made by the Alaska Department of Revenue in the fall of 1988.

Source: Ak. Dept. of Revenue, Fall 1988.

Figure 2
Annual Expenditures, State of Alaska,
FY 1979-1986



Source: Institute of Social and Economic Research, *Alaska Review of Social and Economic Conditions*, "Where Have All the Billions Gone?" February 1987, p. 10.

Billions Gone?"[4] Table 1 summarizes spending during that six-year period. The ISER study found, among other things, that spending for all existing state programs increased, but that several areas received disproportionately more money. Prominent among these were aid to municipalities, including grants for operating expenses, capital improvements, and school construction; transfers to public corporations such as the Alaska Power Authority, Alaska Housing Finance Corporation, and the Alaska Industrial Development Authority; and transfers to state-subsidized loan funds, such as the student loan program and various enterprise loan programs.

The question at hand, however, is not *specifically* how the state used its windfall revenues, but *generally* how it managed the bonanza: on the whole was it reckless and inequitable or circumspect and fair? Will Alaskans look back on the record with pride, or will it cause them to wince? A great deal may be said and written about this issue in the years to come, by Alaskans and no doubt by non-Alaskans as well. Here, I offer a few impressions of my own about the successes and failures of Alaska's fiscal management during this extraordinary period of the state's history.

Successes of Fiscal Management

Of the many successes of the state's financial management during the early 1980s, four seem to me especially significant: the Permanent Fund; the general concern for equity; the commitment to public education; and the absence of major corruption. These successes say something positive about the strength and resilience of our political institutions, and the political culture that underlies them.

Permanent Fund

Alaskans justifiably regard the Permanent Fund as a triumph of fiscal responsibility in the Prudhoe Bay era. Although it is

Table 1
State Expenditures, Standard and Special, FY1981-1986
(in $ Millions)

	1981	1982	1983	1984	1985	1986
State Agencies[a]	$942	$1,119	$1,289	$1,330	$1,966	$1,591
Aid to Schools[a]	$373	$510	$569	$655	$778	$692
University of Alaska[a]	$116	$147	$174	$207	$269	$215
Aid to Municipalities[a]	$206	$474	$513	$519	$705	$412
Other Grants & Programs[a]	$ 23	$ 69	$ 74	$ 84	$116	$ 99
Transfers to & Other G.F. Exp. for Public Corp.[b]	$768	$395	$369	$140	$135	$175
Loan Fund Transfers[b]	$240	$240	$66	$205	$332	$78
Distributions to Individuals						
Perm. Fund Div.[b]	—	—	478	187	160	210
Other[a]	143	177	189	231	279	294
Total	$143	$177	$667	$418	$439	$504
Deposits in Perm. Fund & Other GF Exp. for Perm. Fund[b]	$900	$801	$402	$303	$301	$ 3
Debt Service[a]	$97	$ 94	$143	$166	$175	$164
One-Time Expenditures[a]	$805	$ 4	$ 45	$ 2	$ 1	$ 2
Total of GF Spending	$4,613	$4,030	$4311	$4,029	$5,217	$3,935

[a]Standard expenditures – operating and capital spending for traditional government functions.
[b]Special expenditures – spending for items that fall outside the usual kinds of government spending.
Source: ISER, Alaska Review of Social and Economic Conditions, "Where Have All the Billions Gone?" February 1987.

sometimes perceived as a rampart erected by prescient Alaskans 12 years ago against a spendthrift legislature, the Permanent Fund as we know it today actually evolved over the years through continual legislative attention and commitment.

In 1976 Alaska voters approved a constitutional amendment creating the fund as a means of saving part of the state's oil revenues. But it was not until four years later that the decisive matter of fund management was resolved. By the Permanent Fund Management Act of 1980, the legislature firmly established the fund as a public financial trust guided by the prudent investor rule, which dictates generally conservative investments that pay unspectacular returns but do not expose capital to excessive risk. The competing proposal had been to manage the fund as an economic development bank, and use its assets to expand the infrastructure of the state's economy. Because the state chose conservative management, the fund today holds blue-chip financial instruments that generate a lot of cash: almost $800 million in fiscal year 1988.

In 1982 the legislature further strengthened the fund by way of AS 37.13.145, which mandates using a portion of its annual earnings to protect the corpus of the fund from the effects of inflation. This inflation-proofing has since amounted to almost $1.3 billion, or 15 percent of the principal of the fund, at the end of FY 1988. Economic projections show that inflation-proofing will contribute substantially to the growth of the fund over the long term.

Contributions to the fund mandated by the constitution—at least 25 percent of non-tax oil revenues—have amounted to $3.3 billion since inception of the fund. This is 38.5 percent of the fund's current principal. Mandatory contributions and inflation-proofing deposits together amount to about half the fund's corpus today. The other half is the result of special legislative appropriations, of which there have been three: $900 million of general funds in 1980; $1.8 billion of general funds in 1981;[5] and $1.3 billion of undistributed earnings from the Permanent Fund in 1986. (See Table 2.)

I call attention to these measures to emphasize that successive governors and legislatures have nurtured the fund. We cannot

Table 2
Permanent Fund Principal
($ millions)

FY	Special Appropriations	Dedicated State Revenues	Inflation-Proofing	FY Year-end Balance
78		$54		$54
79		84		139
80		344		483
81	$900	385		1,769
82	800	401		2,969
83	400	421	$231	4,021
84	300	366	151	4,838
85	300	368	235	5,741
86		323	216	6,281
87	1,264	171	148	7,864
88		374	301	8,539
Totals	$3,964	$3,291	$1,282	
Percent of FY88 year-end balance:	(46.4%)	(38.5%)	(15.0%)	

Source: Alaska Permanent Fund Corporation (discrepancy due to rounding.)

simply attribute the health and size of the fund today to the selfless action twelve years ago of far-sighted Alaskans who had not yet been exposed to the corrosive influence of easy money.

Concern for Distributional Equity

Having said this about our savings through the Permanent Fund, what can we say about our public spending? Appropriations made during the legislative sessions from 1980 through 1985 are vast in number, huge in dollar value, and difficult to characterize in general terms. Some were for very good and useful purposes; some not. Which are which depends on who you talk to. What is good public policy to one person (municipal grants for construction of an opulent performing arts center in Anchorage, for example) is to another a spasm of waste and public extravagance.

But whatever else may be said about it, this profusion of appropriations left few out. Budget bills reflected a pervasive, if at times subterranean, sense of fair play on the part of the finance committees. While legislators understood that the political process of budget-making could never achieve perfect distributional equity, so too did they recognize that appropriation bills should be designed to benefit all the geographical, socio-economic, and ethnic groups in the state in at least rough proportion to their numbers.

It is, of course, the natural instinct of politicians to provide something to all of their constituents, and now the money was available to do it. If a general program was found to by-pass a specific group, a variation of it was tailored to fit the circumstances of the members of the excluded group. The non-conforming home loan program of AHFC, for example, provided loan money for structures that couldn't meet the requirements of the standard programs. Alaska's longevity bonus program, which pays $250 a month to residents over 65, was deliberately designed to provide immediate benefits of oil wealth to the elderly, who were unlikely to benefit fully from other forms of the state's largess (capital improvements, for example). Distributional equi-

ty has been the underlying political appeal of the Permanent Fund Dividend Program, which since 1982 has made annual cash distributions to almost all Alaska residents. Rural programs and projects were well funded during the period of high oil revenues, and not solely because Natives were well represented on both finance committees.

Alaska society and its political values have always been strongly egalitarian. To be sure, money was available to cater to virtually every sector of the public, and vote-seeking politicians were eager to do so. But in addition to the electoral imperatives of our political system, I believe that the traditionally egalitarian character of Alaska society was evident in the concern shown for equity in our spending decisions.

Support for Public Education

Another feature of the broad pattern of public expenditures of the early 1980s that seems noteworthy is the large proportion of money that went to public education.

Public school systems, rural and urban, and the University of Alaska probably were receiving all the money they could effectively use by FY1986. When added together – the foundation program and ancillary grants, and operating expenses of the Department of Education and the University of Alaska – educational expenditures exceeded one-third of our operating budgets between fiscal years 1981 and 1986. In addition, hundreds of millions of dollars were appropriated annually for school construction and repair, payment of local school debt service, and student loans. Spending for education in Alaska has always been substantial, and it increased more than spending for any other program as oil revenue increased in the early 1980s. Per pupil expenditures in Alaska far exceeded those of any other state, even after cost-of-living adjustments.

This munificence may in part reflect the considerable size and power of the state's education lobby. The university is a major employer in Anchorage and Fairbanks, and community colleges make important economic contributions to several smaller towns.

Local schools are the largest single industry in many villages (employing teachers, teachers' aides, maintenance workers, and others), and the buildings serve important non-educational functions in the off-hours. Also, Alaska's teachers are highly organized, and constitute one of the state's most powerful interest groups. Nonetheless, I like to think that generous support for education is a measure of the strong desire Alaskans have always had for enriching society as a whole, and for enhancing the opportunity of younger generations to grow and express themselves.

Probity of State Public Officials

With vast sums of money being dispensed from Juneau, it is not surprising that scandals erupted from time to time. But more surprising, perhaps, is the infrequency of their occurrence and, for the most part at least, their relative pettiness. Of course, conflicts of interest were not unknown. Special interests sometimes got special treatment – including the kind of exclusionary and preferential treatment from laws and regulations that can mean big money for a business. But despite all this, however unseemly and offensive, the legislative process was certainly not characterized by bribery and other blatant forms of graft and public vice – the kind of brazen and brawling corruption that seems commonplace in some state and municipal systems elsewhere. The absence of wholesale dishonesty among elected state office holders, and the probity of appointed state administrators generally, reflect the high standards of conduct Alaskans have traditionally expected of state public officials.

These, then, strike me as important successes that mark the management of our public wealth in the flush years of the early 1980s. The cupidity of Alaskans did not result in the expenditure of every dollar that passed through the treasury; public education did not languish in this time of prosperity, and we did not turn away from efforts to improve society in non-material ways; public wealth was not siphoned off to private pockets through rampant corruption. Whether one chooses to see in these successes virtues

of Alaska's socio-political heritage, or simply the fortunate result of the play of legislative politics, they are laudable nonetheless.

Failures of Fiscal Management

There are, however, somber parts of the story of nouveu riche Alaska. Our rush of wealth in the early 1980s was not always managed with sure-handed responsibility and good judgement. Several shortcomings are noteworthy, in part for what they suggest about the need for reforms in our outlook toward fiscal matters and the institutional mechanisms that manage them. These include the failure of our civic and governmental leaders to grasp the temporary and tenuous nature of the boom that unfolded; a covert and free-wheeling budget process; and indifference to the accountability of grant money.

Excessive Spending

From the perspective of our current recessionary doldrums, Alaskans are now uneasily aware that during the first half of the 1980s we spent ourselves into hardship. Politicians have an excuse for failing to discern the future too clearly: who could be elected on a platform of self-denial and restraint in a period of spectacular public affluence? And there was, after all, a laudable state savings program through the Permanent Fund. Perhaps less understandable (because their own money was at risk) is the pervasive failure of businessmen, investors, and bankers to see the inevitable economic consequences of such intense public spending in so short a period.

Economists were uncharacteristically unanimous in their opinion that Alaska's economy was overly dependent on public sector spending in the early 1980s, and therefore vulnerable to a break in the flow of oil money that sustained spending. While ever greater sums were required to keep our contrived economy afloat, all forecasts were for revenue declines – declines sooner or later, and more or less abrupt, but declines nonetheless.

Table 3

Alaska Public Debt Issued Between FY1981 and FY1986 ($ millions)

Fiscal Year	State G.O.* Bonds	State or Agency Revenue Bonds	Municipal G.O.* Bonds	Municipal Revenue Bonds	Total
1981	700.8	1,698.7	1,030.2	441.3	3,871.0
1982	842.4	2,858.4	1,214.9	512.4	5,428.1
1983	946.2	3,719.3	1,591.3	592.1	6,848.9
1984	924.0	4,605.7	1,951.7	630.1	8,111.5
1985	816.1	4,876.0	2,131.0	720.0	8,543.1
1986	706.9	6,254.4	2,420.0	817.0	10,198.3
Total	4,936.4	24,012.5	10,339.1	3,712.9	43,000.9

*G.O. = General Obligation.

Source: Alaska Department of Revenue, Treasury Division, Alaska Public Debt, 1987, p. 4.

But it was not only direct state spending of oil revenues that created the boom. A major contributor was the concurrent spending of many billions of dollars borrowed by the state, its agencies and public corporations, and by municipal governments (see Table 3). The injection of hundreds of millions of dollars into the economy each year (a total of more than $1 billion between FY82 and FY86) through the Permanent Fund dividend program also fueled the boom.

At no time did policymakers give thought to managing public expenditures to moderate the breakneck pace of economic ex-

pansion: fiscal policy never became a tool of growth management.[6] Special appropriations to the Permanent Fund did divert money from the economy and help dampen the boom, but these appropriations were not made with such considerations in mind.

It's painful to reflect that Alaska had the possibility of attaining perpetual financial independence through disciplined, but by no means spartan, spending. Early in 1983 an economist at ISER, Scott Goldsmith, called attention to the dramatic fiscal opportunities of systematic saving in the years of high oil prices and high North Slope production.[7] He pointed out that if our annual general fund expenditures were held at approximately $1.5 billion and the remainder of our oil revenue was set aside for later use, that spending level – adjusted for inflation – could be maintained indefinitely. One and a half billion dollars was substantially more than our general fund appropriations in FY1980, and almost twice the size of our general fund budget in FY 1978.

It is pointless to dwell on this lost opportunity. Once the boom was on there was no calling it back: too many people had too much at stake. Nonetheless, most Alaskans are now uncomfortably aware that greater fiscal restraint – either through more saving or less borrowing – in the high income years of the early 1980s could have provided long-term economic stability and a welcome measure of fiscal security for the state. The recession we are now suffering could have been avoided, and there would have been reserves to cope with an uncertain fiscal future.

I should note that there were mechanisms available to temporarily dampen spending – that is, alternatives to depositing money irretrievably in the Permanent Fund. One of these was the appropriation limit, a sumptuary measure adopted by the voters as a constitutional amendment in 1982. Unfortunately, the skeptics were right about this measure: the base-level spending it permitted was very high by historical standards, and the technical complexity of the law made the limit expansive and evadable.

With a different public frame of mind, the appropriation limit need not have been the totally symbolic gesture that it turned out to be. For example, appropriations made during the 1984 legislative session could have been trimmed by several hundred million

dollars under a conservative, straightforward interpretation of the law. However, we chose a generous interpretation of the allowable limit, and even circumvented that by measures that violated the spirit of the law. For example, the state's $100 million appropriation for local school debt retirement was declared general obligation debt service of the state, and therefore exempt from the limit. Also, an immediate effective date was given to several hundred million dollars in capital appropriations so they would be considered appropriations of the current fiscal year (which was well below the allowable limit) rather than being counted against the limit for the coming fiscal year.

It is not surprising that policymakers found it hard to take the long view of our public finances. For while the citizenry was overwhelmingly in favor of creating the Permanent Fund and adopting the spending limit, so too was it enthusiastic about spending: the governor's office and legislature were under a relentless siege of importuning and harrassment for public programs and public goods. Politicians of this period might be accused of failing to provide leadership on the issue of public spending, but certainly not for failing to deliver what their constituents demanded.

Regrettably, saving in the realm of public finance is not necessarily the rational strategy that it is in the management of one's personal finances. Individuals who save are postponing consumption; members of a community group have no such assurance. Because of the vagaries of politics, local spending that doesn't occur because public money is being set aside for the future may be local spending that is lost forever. This consideration was especially relevant to the bush delegations, which face continual erosion of their numbers in Juneau with each reapportionment. It may also have been a fact of life in the urban areas, where many residents didn't plan to be around long enough to enjoy the speculative benefits of future spending or lower taxes.

Too, an inclination to take a long and calculated view of the future is – historically, at any rate – not in the Alaska character. Unfettered optimism has traditionally been a dominant trait of Alaska's frontier political culture. The settlement, growth, and

political development of Alaska would not have happened without it. We may lament that fiscal planning is unfamiliar to Alaskans, but it is probably true that if anyone had done any fiscal planning at the time, Alaska wouldn't have become a state in 1959.

Backroom Budgeting

That a certain amount of waste and inefficient use of public money should result from a six-year spending spree is perhaps inevitable. I will not offer an opinion about the magnitude of losses of this kind, but I will venture to say that the budgeting system was an open door to reckless and inefficient spending, rather than a safeguard against it.

Spending decisions were made through a closed and secretive process. This backroom budgeting was widely condemned by the press and civic groups of all political orientations.[8] An especially troubling aspect of the closed budget deliberations was the leeway it gave to lobbyists.

But the budget process had another peculiarity that invited abuse and inefficient use of public funds. The large sums of money available annually for capital appropriations were divided more or less equally among the governor, the senate, and the house (the so-called "one-third, one-third, one-third" system). Within the senate and house there was a per capita distribution among legislators, with each member of the majority receiving the same share, and each member of the minority receiving the same but a substantially smaller share than received by the majority. Thus, majority senate members received the largest allocations, the house minority the smallest. Within the broad bounds of "public purpose" the money was completely discretionary.

Admittedly, this budgeting system facilitated the work of the legislature at the time. There was simply too much money being dispensed to negotiate, bargain, and closely compare the merits of every project. Also, theoretically, the "one-third, one-third, one-third" arrangement permitted each election district to set its

own project priorities. An arbitrary statewide allocation of capital funds to specific project categories might have kept municipalities from targeting all local spending to the most pressing local needs. But unfortunately, the allocation of substantial sums of money to individual legislators simply removed the lid from the pork barrel.

More than ever, legislators sought to be personally identified with the projects funded for each community. As a consequence, agencies with statutory responsibility for (and technical expertise in) project planning and evaluation – the Department of Education for school construction and repair; the Department of Transportation and Public Facilities for highways, airports, ports, and harbors; and the Department of Environmental Conservation for water and sewer systems – were given less and less discretion over project selection and design. Instead of making a comprehensive capital appropriation to the relevant agency, which would then prioritize the needs and requests of communities on the basis of explicit criteria, budget bills specified where schools were to be built, improved, and repaired; where water systems were to go; and who would get ports and harbors of predetermined designs.

Many valuable and lasting capital improvements were made across Alaska during this period. But under the prevailing budget procedures, where no one asked questions of his fellows' projects, the annual capital budget became increasingly littered with ill-conceived expenditures of legislative whim or community impulse. Fewer and fewer projects reflected the studied priorities of municipal governments working in cooperation with state agencies.

The appropriation of money is, of course, inherently a political process, and no one proposes that decision making and project selection should turn exclusively on rigorous technical evaluation and benefit-cost study. Nonetheless, to get the most from construction budgets, we must pay attention to rudimentary requirements of project planning. We should require that capital project proposals reflect some basic consideration of the underlying need for the facility; the optimum timing or sequence of the project in

relation to other developments; proper sizing of the project in relation to the number of future users and their ability and willingness to operate and maintain it; and the most efficient design, site, materials, and construction methods for the facility at hand. When it came to municipal grants for capital improvements, legislative sponsors of projects were not expected to show evidence of even perfunctory attention to these concerns. Indeed, they were under no obligation to provide written justification for projects or even comprehensive descriptions; they just sent their lists to the finance committees.

Not surprisingly, the sums of money budgeted for these legislatively designated projects frequently bore no resemblance to carefully-engineered cost estimates. This mismatch of dollars and projects gave rise to another set of obvious (and not so obvious) budgeting and financial management problems. By 1986, the Department of Transportation and Public Facilities and the governor's office did not make even a pretense of preparing a 6-year capital improvement plan for the sate, as required by the executive budget act. It would have been fruitless to do so, because capital spending had become a matter of political patronage.

Indifference to Accountability

Problems of waste and inefficiency in capital spending that resulted from a lack of basic planning procedures were amplified by a cavalier attitude about the accountability of communities for the use of state money. From time to time, stories would appear in the newspapers that suggested trouble with the accounting for grant money in rural Alaska: "$790,000 Later, Village Still Without Clean Water";[9] "Former Platinum Officials Ordered to Repay $120,000";[10] "Village Ponders Ex-Mayor's Expensive Vision."[11] These revelations were just the tip of the iceberg, judging from anecdotal accounts of unfinished projects and dubious uses of grant money that were heard from all over Alaska.

When questioned about these reports, administration officials typically replied that there was nothing they could do because

they had no control over communities' uses of state grants. This is because of a provision of law (AS 37.05.318) adopted in 1982, which states that "notwithstanding the Administrative Procedure Act . . ., the Fiscal Procedures Act . . ., and the Executive Budget Act . . ., a state agency may not adopt regulations or impose additional requirements or procedures to implement, interpret, make specific, or otherwise carry out the provisions of" a municipal grant.

Thus, not only were state agencies by-passed in the selection and design of local capital improvement projects, they were explicitly prohibited from overseeing the expenditure of public funds appropriated for them. This "hands off" provision of state law partly reflected hostility toward bureaucratic paternalism, and partly the realization that funneling all local capital projects through the cumbersome and expensive procedures the Department of Transportation and Public Facilities used for state-owned projects would strangle the flow of money to communities. But it also reflected the free-wheeling style of the time.

Simply writing large checks to municipalities was not totally unreasonable in cases where internal accounting controls were firmly in place, but it was an invitation for trouble in most smaller communities which seldom had accounting procedures any more sophisticated than a shoebox for receipts (the location of which someone was thought to remember). Furthermore, there was virtually no threat of an audit by the state. Audits were too sensitive politically, and governors didn't have the taste for them. Finally, the Department of Community and Regional Affairs (whose clientele is primarily the rural villages) was standing guard in Juneau to see that a professionally aggressive audit function never developed in the Office of Management and Budget.

This indifference to accountability of public money was aggravated by yet another provision of state law governing municipal grants. Alaska Statute 37.05.315 was carefully structured so that enterprising communities could earn substantial sums of interest on early advances of grant money and on the unexpended balance of project funds. This income did not have to be applied to construction of the project for which the money

was appropriated. Indeed, municipalities did not have to covenant with the state in any way about its use, or account to the state in any way whatsoever, for its ultimate disposition.

This money was, in effect, an off-budget form of municipal assistance, and doubtless found good use locally. (Sitka, for example, established a $15 million permanent fund of its own with interest that accumulated from grant money.) It was hardly an equitable assistance program, however, and it further distorted the capital budget process. The total amount of money available for capital projects or other purposes might have increased by as much as 10 percent if interest earnings on unspent balances of local project money had been calculated in the original appropriation amount for each project.

Conclusion

With this broad-brush survey of fiscal successes and failures, are we any closer to an answer to the question of how wisely the State of Alaska managed its oil money? Perhaps not much, except to say prosaically that the record is mixed. We knew, of course, that there would be no simple and conclusive answer to the question, but this realization should not deter us from a dialogue on the subject. Only through public examination and discussion will we be able to take pride in that which pride may be taken, and to begin planning reforms where there have been failures of policy and institutional performance.

Even though oil revenues have declined steeply from the levels of the early 1980s, it is not too late or otherwise unnecessary to deal with malpractices in the budgeting process and laxity in procedures governing grants of public money. Here, the impetus to reform must come from the public or from the governor. A first step might be the convening of a blue-ribbon citizens' commission to review budget procedures and fiscal safeguards with a view to recommending specific statutory changes. Such a group might also study mechanisms for longer term fiscal stability, such as a budget reserve account. If nothing else, an effort such as this might provoke much-needed public discussion about the state's fiscal future, and the lessons of the recent past.

Endnotes

[1]Frank Fraser Darling, "Man, Environment, and Alaska," *Change in Alaska*, George Rogers, ed. University of Washington Press, 1970, p. 112.

[2]There is a technical distinction between spending and appropriating revenues (the former occurs after the latter, and may be less, in which case the remainder lapses back to the general fund for appropriation in the future). Revenues and appropriations will be roughly similar but not identical in any fiscal year because appropriations are made on the basis of a revenue projection well in advance of receipt of revenues. Thus, more or less money may be received during the year for which appropriations are made. These distinctions are largely ignored in this paper. But they are very important to anyone attempting to compare one set of fiscal statistics to another. This figure of $26 billion spent includes $2.7 billion in special contributions that the legislature appropriated from the General Fund to the Permanent Fund in the first half of the 1980s.

[3]State spending in FY1987 totaled $3.4 billion and in FY1988 $3.3 billion. See "Where Have All the Billions Gone? – Part II," ISER *Research Summary #* 42, February 1989. This is an update of the publication cited in note 4.

[4]University of Alaska Anchorage, Institute of Social and Economic Research, "Where Have All the Billions Gone?" *Review of Social and Economic Conditions*, Vol 24, No. 1, February 1988

[5]This amount was actually transferred to the fund in several installments by executive action between 1983 and 1986.

[6]The potential of using fiscal policy in pursuit of growth management objectives is a central theme of the research volume by Kresge, Morehouse, and Rogers, *Issues in Alaska Development*, University of Washington Press, 1977

[7]University of Alaska Anchorage, Institute of Social and Economic Research, "Sustainable Spending Levels from Alaska State Revenues," *Alaska Review of Social and Economic Conditions*, Vol. XX, No. 1, February 1983.

[8]See, for example, "Pork-barrel Politics Blasted by State Experts," *Juneau Empire*, July 6, 1984; "Citizens Demand Changes in State Budget Process," *Anchorage Daily News*, September 13, 1984.

[9]*Fairbanks Daily News-Miner*, March 31, 1986.

[10]*Anchorage Daily News*, May 10, 1984.

[11]*Anchorage Daily News*, March 11, 1984.

Appendix 16

END

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